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Foreign Economic Trends and Their Implications for the United States

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BENIN: KEY ECONOMIC INDICATORS
(US $ million)

	1985	1986	1987 (est.)
Domestic Economy			
Population (millions)	3.9	4.0	4.2
Population growth	2.7	2.7	2.8
GDP in current prices (a)	1027.0	1399.0	1700.0
Per capita GDP in dollars (a)	263.0	340.0	408.0
Balance of Payments			
Exports (fob)	181.0	131.0	65.0
Imports (fob)	267.0	329.0	435.3
Trade Balance	-86.0	-198.0	-370.3
Current-account balance	-48.6	-145.7	-280.0
Overall balance	-47.7	-111.8	- 60.0
Current Account/GDP ratio	5%	10%	16%
Average exchange rates for year	449	346	301
U.S.-Benin Trade			
U.S. exports to Benin	67.2	16.9	18.0*
U.S. imports from Benin	0.1	0.1	15.8*
Trade balance	67.1	16.8	2.2*
U.S. share of Benin exports (%)	0.1	0.1	0.09
U.S. share of Benin imports (%)	17.8	5.0	5.0

Principal U.S. exports: used clothing, wheat
Principal U.S. imports: crude petroleum, lumber

* Actual

Sources: Ministry of Commerce of Benin, IMF, World Bank, U.S. Embassy estimates, U.S. Department of Commerce.

INTRODUCTION

Since 1983, Benin's economy has experienced a low growth rate averaging .06 percent per annum, in part due to lower world prices for Benin's exports and a regional downturn which has led to a drop in Benin's reexport trade. This low growth rate also reflects serious deficiencies in macroeconomic policies and the failure of several major government investment projects during the 1970s. The results are a general underutilization of productive capacity, weak public finances, an insolvent banking system, and an external debt burden.

With the assistance of the World Bank and several key bilateral donors, the Government of Benin has begun to work to revitalize its economy. For example, in the cotton sector, improved pricing policies and farmer outreach programs permitted a quadrupling of production of Benin's principal export commodity between the 1982-83 and 1986-87 growing seasons. However, production fell slightly during the 1987-88 campaign due to difficult climatic conditions and a slightly reduced producer price reflecting the government's financial difficulties. The Government of Benin has also focused on a restructuring of its public enterprise sector and liquidating unprofitable enterprises. Improved investment programming has led to Benin's limited resources being concentrated in priority areas and has avoided aggravating the external debt situation.

However, these actions have not been enough to alleviate Benin's present economic crisis. A fundamental reorientation of Benin's economy is needed, and with the assistance of World Bank and International Monetary Fund structural adjustment facilities, Benin plans to enter into its initial structural adjustment program during 1989-91. The government's goals include increasing the real GDP growth rate from .6 percent to 3 percent per annum, reducing the Government of Benin's personnel expenditure/consolidated receipts ratio from an estimated 70 percent in 1988 to 53 percent, and reducing the current account deficit/GDP ratio from approximately 11.5 percent in 1988 to 9.3 percent in 1991.

BACKGROUND

The People's Republic of Benin is classified by the United Nations as one of the world's least developed countries. Located on the west coast of Africa, Benin is bordered by Nigeria to the east, Togo to the west, and Burkina Faso and Niger to the north. The main economic activities have traditionally been agriculture and regional trade.

Following the proclamation of a Marxist-Leninist government in 1974, the state became the predominant economic agent, managing and controlling operations in most sectors of the economy. Since the early 1980s there has been a dramatic deterioration in Benin's

economic performance, causing Benin's leaders to grapple with the worst economic crisis of the country's 27-year history.

GOVERNMENT

Benin gained independence from France in 1960 as the Republic of Dahomey, in 1975 the name was changed to the People's Republic of Benin. In its early years, the nation was plagued by political instability and tribal rivalry. There were nine changes of government within the first 12 years of independence. The last occurred in 1972, when Lieutenant Colonel Mathieu Kerekou seized power in the country's fifth military coup. As the new President, Kerekou announced that Marxism-Leninism would be adopted as the official ideology of Benin. Major companies were nationalized, and a single political party, the People's Revolutionary Party, was established. In 1977, a coup against Kerekou failed, but the Beninese Government blamed "international imperialism" and relations with France and the United States deteriorated sharply. Kerekou was elected President in 1980 and again in 1984.

Since the early 1980s, the government's strongly nationalist policies have been modified due to the poor performance of the national industries and subsequent years of recession. The disappointing benefits of closer Beninese-East Bloc relations and the increasing need for foreign development assistance were important factors in Benin's turning once again towards the West. Relations with France began improving in 1979, and with the United States in 1983. Since then, the Government of Benin has fostered increasingly friendly relations with the West, including encouraging private foreign investment and foreign trade.

ECONOMIC POLICY

Driven by the heavy losses suffered by nationalized industries and by the worsening economic situation, the government has shown interest since 1983 in privatizing many sectors of the economy. In 1986 Benin allowed a number of private foreign firms to begin operating in the transport sector. A private tourist promotion office was also authorized. In 1987 the government began to liquidate a number of unprofitable state-owned enterprises and allowed a private financial institution to open. Progress in privatization, however, has not been rapid.

The government has initiated several economic reform efforts, including World Bank-funded technical assistance and public enterprise rehabilitation projects. In November 1985 President Kerekou announced that Benin would seek a standby facility with the International Monetary Fund, which is expected to reach conclusion by mid-1989. The signing of such an agreement will open the way to Paris and London Club rescheduling of Benin's external debt.

In 1982 Benin issued a new investment code specifying the conditions under which foreign investment was to be allowed in Benin. In its more recent commitment to further encouragement of private investment, the Government of Benin currently is revising the 1982 Code, which was designed to encourage primarily large-scale public enterprises. The government hopes to complete the revision by July 1989, which will encourage medium and small-scale private investment.

STRUCTURE OF THE ECONOMY

Benin's economy is dominated by farming and the importation of goods for reexport to neighboring countries, especially Nigeria. The importance of this transit trade is reflected in the fact that customs duties are the single greatest source of government revenue.

Agriculture--Agriculture is the single most important sector of the economy. Agricultural activities furnish approximately 70 percent of household income, 52 percent of export receipts, and 42 percent of the GDP. Small, independent farmers produce 90 percent of agricultural output. Production is dominated by subsistence food crops, mainly corn, sorghum, yams, cassava, beans, and small quantities of rice. With normal weather, agricultural food production can meet domestic needs, and, under particularly favorable circumstances, generate a surplus for export to Nigeria. Since 1979 Benin has been importing increasing quantities of rice and wheat, much of which crosses the border into Nigeria. Rice from Pakistan and Thailand rice accounts for most of the rice imports, although American wheat is being imported by the local flour mill.

Cash crops such as cotton, palm oil products, and peanuts are also important. Cotton, for example, usually provides about one-third of Benin's export earnings annually. Cotton is the only agricultural product to have experienced rapid expansion in recent years, increasing almost tenfold since 1981. The rapid increase in production has been due to improved inputs and to the government's policy of progressively increasing producer prices. Faced with increasingly insurmountable agricultural expenses, the government has begun to phase out all subsidies on fertilizers and insecticides. Benin has taken steps to increase its storage and ginning capacity, as evidenced by the reopening of the Savalou cotton processing plant in late 1987. Furthermore, in July 1988 the state vegetable oil company, SONICOG, announced plans to construct a cottonseed warehouse at the Bohicon cotton plant. The project is to be financed by aid from West Germany. Despite these measures, however, storage and ginning capacities continue to be insufficient.

In general, however, agriculture has grown very slowly over the last ten years. The sector has been plagued by poor utilization of rural credit, a lack of infrastructure, and insufficient and inefficient use of fertilizer, insecticide, and seeds. In past years drought has been a severe detriment to agricultural output, but the timely arrival of the seasonal rains in June and July of 1988 allayed similar fears for the most recent harvest. Benin should have a small food surplus with which to boost cross-border food trade with Nigeria this year.

Livestock, Forestry and Fishing--There has been an increase in Benin's livestock population in the past decade. Livestock production has been beset with problems, however, including lack of water and pasture during the dry season, disease, and low prices. Production falls far short of the country's needs; Benin imports substantial amounts of meat and poultry in order to meet demand. Benin's forest resources also fall short of national need (see "Commerce and Transportation" section). A project to increase wood production and processing currently is under way with substantial assistance from West Germany.

The fishing sector is dominated by individual fishermen and has registered a steady decline in production, although excellent fresh local fish is available in the southern provinces. Production now stands at half the value that of the 1970s, the decrease is due to overfishing and ecological degradation.

Industry--Benin's modest industrial sector accounts for nearly 13 percent of GDP and employs about one-fourth of the country's paid workers. Industrial production consists primarily of textiles, beverages, food processing and construction. Industrial policy is set by the government, and the sector is dominated by public enterprise. In recent years, the industrial sector has experienced severe economic and financial problems, including the disappointing performance of two large industrial plants, the Onigbolo cement plant and the Save sugar refinery. These are large joint investment projects which were implemented with Nigeria between 1980 and 1982, a period of heavy foreign borrowing and investment in projects oriented toward the Nigerian market. Both projects have been producing at levels well below capacity and operate at a loss; in 1988 the two governments decided to put them up for private management.

Progress in increasing foreign investment in Benin was boosted significantly in 1988, primarily with the arrival and installation of the Societe Beninoise de Siderurgie (SBS). Located in Cotonou, SBS is a steel mill headed by a U.S. entrepreneur who launched a similar venture with great success in neighboring Togo in 1985. SBS will produce reinforcing bars, corrugated sheet and cotton baling wire.

The prospects for industrial growth in Benin, however, are limited due to the small domestic market, the limited purchasing power of the Beninese consumer, and overall sluggish regional demand.

Energy--Benin is heavily dependent upon imported energy, although it has a diversified resource base which, in principle, could meet the country's energy needs. Fuel wood satisfies 80 percent of Benin's energy requirements. Although supply exceeds demand nationally, fuel wood shortages have developed in certain areas, particularly the south. In response, the government has initiated several reforestation projects.

Refined petroleum products, all of which are imported, meet 13 percent of the country's energy needs. In April 1988, Ashland Exploration signed a two-year contract with the Government of Benin to manage the Seme offshore oilfield. Benin is now producing about 4,500 to 5,000 barrels per day of crude oil, although potential production is somewhat higher. Total recoverable reserves in place are estimated at 20-22 million barrels, with offshore field depletion expected in 1992. However, new drilling may extend both recoverable reserves and the estimated date of depletion.

Electricity accounts for only 2 percent of Benin's energy consumption. About 85 percent of Benin's electricity is imported from Ghana, and the remaining 15 percent is produced by domestic diesel-powered plants. Benin has begun to develop its own hydropower resources, including the joint Benin-Togo Nangbeto Hydroelectric Power Project, which is capable of producing approximately 63 MW of hydropower and 150 GWh of energy annually.

Commerce and Transportation--The commerce and transportation sectors together account for approximately 30 percent of Benin's GDP and employ one-fourth of the active population. The commerce sector has traditionally been the country's highest growth sector, owing primarily to regional trade. In recent years, decreased demand from Benin's neighbors and the Nigerians' anti-smuggling drives have resulted in stagnation of the commercial sector. Nevertheless, Benin remains a major center for regional trade. The country faces a chronic trade deficit, which the government hopes to alleviate through increased exports of petroleum, cement, sugar, cotton and other agricultural products.

The transportation sector, which consists primarily of road and rail transport and operations at the Port of Cotonou, accounts for 10 percent of the GDP. Benin's overall transportation system has been plagued by poor management, inadequate finance, insufficient material support and maintenance, a lack of technicians, and, more recently, by the regional economic downturn.

The government has a monopoly on port operations, but has begun to encourage the participation of private local truckers in this

former state-run sector. The Port of Cotonou has been expanded in anticipation of increased demand from within the region, especially from Nigeria. As a result of the economic downturn, competition from the Port of Lome, and the lack of a good road and rail network, however, port revenues have stagnated.

Both road and rail traffic have suffered a decline in recent years, owing in large part to decreased transit trade with Niger and Burkina Faso. To boost flagging cross-border transit trade, the government is paving the Dassa-Parakou stretch of the principal north-south road in conjunction with foreign assistance such as from the European Community. The rest of that road, stretching from Cotonou to Dassa and from Parakou to the Niger border, is in excellent condition. Benin provides an important transit axis for landlocked Burkina Faso. In June 1988 a joint Beninese and Burkinabe commission met to discuss plans to improve the road from Porga to Natitingou, Djougou and Parakou. The main transit road along the coast runs from Lagos to Dakar, and is in similarly good condition. Transports Aeriens du Benin (TAB), the Beninese national airline, was liquidated in early 1987. Plans are now under way to have a private airline, Benintair, fill the resulting domestic air service gap. Other airlines serving Benin are Air Afrique, UTA (France), and Sabena (Belgium).

Information and Telecommunications--Mail and telecommunications are operated and regulated by the PTT, which in turn is controlled by the Office of Post and Telecommunications (OPT). In November 1988, the World Bank approved a $65 million package to upgrade and expand the local telephone networks, as well as provide technical assistance to the OPT. Cofinancing for this project has been confirmed for approximately $38 million from sources such as the African Development Bank, the CCCE of France, the Canadian International Development Agency, and the European Investment Bank.

Tourism--Benin has a number of tourist attractions, including the lake village of Ganvie, two game parks in the north, the ancient royal cities of Abomey and Porto Novo, several museums, a number of good restaurants, and attractive beaches. The tourist industry, however, is quite undeveloped and suffers from a shortage of adequate hotels, a lack of professional tour operators, and poor internal transport.

The Government of Benin has shown increasing interest in developing its tourist industry. For the first time since 1974, a privately owned tourist office, the Societe Beninoise pour la Promotion du Tourisme, has been allowed to operate in Benin. The Cotonou Sheraton Hotel, one of the Beninese Government's largest investments in recent years, as well as domestic/national road repairs and increased direct air service to and from Europe, should encourage further development of this industry.

MONEY AND BANKING

Benin is a member of the West African Monetary Union (WAMU), along with Burkina Faso, Cote d'Ivoire, Mali, Niger, Senegal, and Togo. President Kerekou currently serves as president of WAMU. Members of the Union share a common currency, the CFA franc, and a common central bank, the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO), with head- quarters in Dakar. The CFA franc is pegged to the French franc at the rate of 50 CFA francs to one French franc. The convertibility of the CFA franc is maintained by the BCEAO and is guaranteed by the French treasury. This convertible currency gives Benin advantages in foreign trade but means that Benin has little flexibility in its monetary policy. Capital transfers between Benin and the franc zone are virtually free of exchange controls, but flows to and from other countries require approval from the Ministry of Finance. As mentioned earlier, however, foreign investment incentives such as tax breaks and repatriation of profits are granted within the framework of Benin's investment code.

Since 1974, Benin's banking system has been owned and operated by the government. Of the three state-owned banks, the CNCA (National Agricultural Credit Agency), the BBD (Beninese Development Bank), and the BCB (Commercial Bank of Benin), only the latter two are still in operation. Due to a severe liquidity crisis, however, the government has discussed allowing private foreign commercial banks to operate in Benin, and allowing private shareholding in government-owned banks. In September 1987, after nine months of negotiations, a private Swiss financial institution, Rasmal Finance, was allowed to open in Cotonou. Although restricted in its field of operation so as not to compete too vigorously with the BCB, it performs several of the functions of a merchant bank. Since July 1988 the Beninese Government also has sent several delegations to negotiate with a number of French and Nigerian banks.

The Government has undertaken an audit of the BCB's loan portfolio, and launched a BCB private sector debt recovery operation. A similar audit of the BBD was begun in October 1988. In recent years, heavy government borrowing to finance both government-owned enterprises and large investment projects has decreased the amount of credit available to the private sector. Much of this borrowing has not been repaid on time, and the Beninese economy suffers from severe liquidity problems, resulting in a virtual collapse of the entire banking system. Many Beninese keep their money in banks in neighboring Togo instead, due to the extreme lack of confidence in the Beninese banking sector.

TRADE

Until recently, reexports to neighboring countries were Benin's major source of export earnings. An increase in cotton produc-

tion, and Benin's modest crude oil production have brought about a significant shift in the composition of the country's exports. Benin also exports palm products, cocoa and coffee. For the most part, cocoa and coffee are imported informally from other countries, then reexported, mainly within the region. Benin's recorded exports amounted to $65 million in 1987, a 50 percent drop from the previous year. Benin's exports to the United States consist almost entirely of crude petroleum.

Benin's principal imports are refined petroleum products, construction material, spare parts, and consumer goods such as used clothing, liquor, tobacco, and fabrics. As noted earlier, Benin is also importing increasing amounts of rice and wheat. Much of Benin's imports are reexported to neighboring countries, especially Nigeria. However, statistics on this important informal trade sector are limited and unreliable.

Benin's recorded imports are estimated to have totaled $435.3 million in 1987, approximately 30 percent higher than the previous year.

Benin's imports from the United States consist mostly of wheat, used clothing, food, tobacco, and various types of machinery. Although usually greater than U.S. imports to Benin, U.S. exports to Benin are usually very modest. In 1987, U.S. wheat exports to Benin amounted to $1.6 million, and in 1988 reached $5.7 million. U.S. exports to Benin in 1987 of used clothing and machinery reached $5.5 million and $1.6 million, respectively. Total U.S. exports to Benin amounted to $18 million in 1987; and in 1988 they amounted to $20.9 million.

BALANCE OF PAYMENTS

In 1984 a combination of strong exports of crude oil and cotton with a decrease in imports, gave Benin one of its lowest current account deficits in many years. Since then, however, the current account has deteriorated sharply, owing both to increased imports and decreased exports.

The net capital account has also suffered in recent years, largely due to loan repayments for several large investment projects, which had been financed almost entirely by commercial loans. Net capital inflows fell from $25 million in 1986 to $9 million in 1987. However, Benin's official balance-of-payments statistics do not include the substantial amounts of flows with neighboring countries. Caution therefore is suggested in the interpretation of developments in the balance of payments in view of probably signficant margins of error. Most of the values shown in the "Key Economic Indicators" section are estimates, as only data on recorded trade are readily available from the Beninese Government.

EXTERNAL DEBT

Benin's public and publicly guaranteed external debt, excluding arrears, amounted to an estimated $1.39 billion at the end of 1987, up from $1.07 billion in 1986 and $898 million in 1985. Long term debt for 1986 accounted for $770 million, of which only $390 million was on concessional terms. Short term debt came to $303 million, most of which was in the form of export credits. The Organization for Economic Cooperation and Development (OECD and the Bank for International Settlements (BIS) have identified total debt service payments amounting to an estimated $82 million in 1986, of which $30 million was amortization of long term debt, and $34 million and $18 million were interest on long term and short term debt, respectively.

A substantial portion of that debt can be traced to the large investment projects previously mentioned, mainly the Save sugar refinery, the Onigbolo cement plant, the Seme offshore oil drilling project, and the Sheraton Hotel in Cotonou. As mentioned earlier, these projects were financed almost entirely through commercial loans. Owing to generally poor economic conditions and depressed prices of oil and sugar, these projects have not been able to generate enough income to repay the debts contracted to build them. It is these projects that are responsible for the greater part of Benin's substantial debt-repayment burden.

Benin has been in arrears on its external debt since 1982. By the end of 1986, these arrears amounted to approximately $310 million. Most arrears are on the same loans mentioned earlier, those used to develop Save, Onigbolo, and Seme. It should be noted, however, that Benin's debt to BIS reporting banks actually dropped from $154 million to $143 million between the fourth quarter of 1987 and the first quarter of 1988.

LABOR AND WAGES

The bulk of the active population of Benin is employed in the agricultural sector. About 70 percent of salaried employees are employed by the government. At the end of 1982, the minimum wage was increased to 17,500 CFA per month (approximately $58.13). Real wages have declined in the past few years, as salaries have failed to keep pace with the cost of living. The government experienced difficulties in paying its civil servant salaries for a good portion of 1988.

There is one government-controlled labor federation in Benin. Skilled and semiskilled workers are scarce. Nevertheless, educational levels in Benin compare favorably with those of other countries in the region. There are few technical training

programs, so Beninese employees usually require on-the-job training.

SHORT-TERM TRENDS

With the signing of a $40 million ($29.8 million SDR) structural adjustment credit with the World Bank expected by mid-1989, the Government of Benin appears well on the way towards a fundamental reorientation of the Beninese economy.

The Government of Benin has already made significant progress in several key areas of economic reform. For instance, since 1987, the government has adopted a series of measures aimed at improving fiscal receipt collection. Furthermore, quantitative restrictions on imported goods competing with locally produced items such as sugar, non alcoholic beverages, textiles, edible oils, and wheat flour were eliminated in July 1988. These restrictions were replaced instead by import taxes, which both protects local producers and simultaneously generates much needed fiscal receipts and widens the tax base.

Crucial to heightened economic reform is the need to cut expenditures on civil servants and the military. Automatic pay raises and living allowances have been suspended, a hiring freeze imposed, a 50 percent salary cut mandated for bureaucrats in training, and a program prepared for the voluntary departure of civil servants.

The Government of Benin will be taking further steps to privatize a number of state industries. In addition to the Save project, an action plan outlining the privatization of several operations, including a construction materials operation and six regional transport companies, is scheduled for completion by July 1989. Also planned are the liquidation of a fish-farming project and a data-processing enterprise, as well as diagnostic studies of several other operations, covering cement, fertilizer, greycloth, palm oil, and match processing. The Government of Benin has indicated its commitment to further encouragement of private investment by lifting several key impediments to commercial activities. Among these are the lifting of controls on tobacco, karite, palm oil and peanuts, as well as reducing the number of items affected by official price controls. Most important for the coming years is the government's decision to open the banking sector to private banks.

MARKET POTENTIAL AND OPPORTUNITIES FOR U.S. BUSINESS

The poor economic conditions described earlier will limit Benin's ability to import for the next several years. Nonetheless, U.S. exporters continue to be successful in selling modest amounts of

various products in Benin. Since 1986, Benin has been eligible to participate in the U.S. Department of Agriculture Export Enhancement Program (EEP) for wheat. Under this program, Beninese importers may purchase U.S. wheat at world prices. The U.S. exporter receives a subsidy from the U.S. Government in the form of agricultural products.

American businesses might find opportunities for selling oil field equipment and maintenance services in conjunction with the Seme Oil Field Project. Those U.S. businesses interested in investing in Benin may find a number of small, interesting projects. Possibilities include fruit juice production, glass bottle manufacture, sea salt extraction, vegetable processing, and transport. Large quantities of mangoes in the north and coconuts in the south offer further opportunities for export ventures. There are Beninese businessmen interested in joint ventures with foreigners and feasibility studies exist for a number of projects. Tourism may also be a fruitful area for investment. Benin has a number of interesting attractions, including two game parks, but the Beninese tourist industry has only just begun to develop.

PRINCIPAL 1987 IMPORTS FROM THE UNITED STATES
(in thousands of U.S. dollars)

Item	Value
Used Clothing	5,477
Loose Tobacco	3,644
Wheat	1,617
Machines	1,567
Soybean Oil	432
Food Products	371
Mechanical Shovels	266
Milled Corn	183
Office Machine parts	167
Miscellaneous	4,277
TOTAL VALUE OF ALL U.S. EXPORTS TO BENIN IN 1987	**18,001**

PRINCIPAL 1987 IMPORTS FROM ENTIRE WORLD
(in thousands of U.S. dollars)

Item	Value	Leading Source
Fabric for Clothing	104,497	South Korea
Rice	99,309	Thailand & Pakistan
Refined Petroleum Products	25,609	France
Used Clothing	22,782	United States
Cigarettes	14,314	United Kingdom
Pharmaceutical Products	11,700	France
Insecticides	8,714	n.a.
Canned Tomato Concentrate	8,027	n.a.
Head Scarves	7,904	India
Wheat	3,577	United States
Vegetable Oil	3,524	n.a.
Miscellaneous	125,336	
TOTAL VALUE OF ALL IMPORTS TO BENIN IN 1987	**435,293**	

Sources: Ministry of Commerce of Benin and the U.S. Department of Commerce